GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2689
ANSWERED ON:31.08.2007
`INFLATION `
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Will the Minister of FINANCE be pleased to state:

(a) whether the rate of inflation has declined since April, 2007;

(b) if so, whether the Government has curbed the supply of currency from its higher level during the last year;

(c) if so, the details thereof;

(d) whether there is any impact on inflation due to inflow of foreign exchange reserve/money supply from outside the country;

(e) if so, the details thereof; and

(f) the further steps taken/being taken by the Government to check the inflation rate?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a): Yes Sir. Year-on-year monthly inflation measured in terms of Wholesale Price Index declined to 4.4 per cent in July, 2007 from 6.3 per cent in April 2007 and the point-to-point inflation for the week ended August 11, 2007 was 4.1 per cent.

(b) & (c): There has been a deceleration in the growth of `currency with the public`. The increase in `currency with the public` as on August 3, 2007 over the level of March 31, 2007 was 1.5 per cent (Rs.7229 crore), as compared to the growth of 5.3 per cent (Rs.21,700 crore) during the corresponding period of the last year.

(d) & (e): The exchange rate policy of the RBI is guided by the broad principles of careful monitoring and management of exchange rates with flexibility, and without a fixed or pre-announced target or band, coupled with the ability to intervene as and when necessary. An intervention by RBI through purchase of foreign exchange, could inject rupee funds into the system, with implications for liquidity and inflation. It is addressed by RBI through monetary instruments like sterilization and changes in policy rates which regulate liquidity.

(f): Containment of inflation is high on the agenda of the Government. Apart from the monetary policy initiatives of the RBI, anti-inflationary policies of the Government include appropriate fiscal measures like rationalization of excise and import duties on essential items, effective supply-demand management of essential commodities through tariff and trade policies and strengthening the public distribution system.